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ABSTRACT

This booklet identifies 14 basic economic concepts that have been selected for emphasis in junior high social studies classes in Nebraska. The booklet is accompanied by a series of related instructional units (see SO 011 416). In this booklet, the concepts are listed in a sequence from the simplest to the most complex, with concepts one through ten being most basic ones. The first five are concerned with economic wants, productive resources (natural, capital, and human), scarcity and choice, opportunity costs and tradeoff, and economic incentives such as self interest, profit, and wants. Concept six considers specialization, comparative advantage, and the division of labor. Discussions of interdependence, markets, supply and demand, the price mechanism, and productivity complete the presentation of the basic concepts. The more difficult concepts, 11-14, are designed for advanced junior high school students or with those who express a special interest in economics. These concepts are unemployment and inflation, money and monetary policy, fiscal policy, and saving and investment. All 14 concepts should be taught in order; they may be used throughout an entire social studies program or taught in a self-contained one semester course. A list of resource materials is included. (KC)

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**ECONOMIC CONCEPTS FOR NEBRASKA'S
JUNIOR HIGH SCHOOL STUDENTS**

Dwain Myers, Author

*Paul G. Johnson
Coordinator and Editor*

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FOREWORD

At this point in history, there is concern with the nation's economic health. Consequently, both educators and businessmen feel that young people need to obtain a greater knowledge about the economic issues that confront each of us in our daily lives. Many of the goals and objectives statements of schools now indicate that further student understanding of our American economic system has high priority.

To supplement social studies textbooks that introduce economics in the elementary grades, the Nebraska Department of Education joined the Agency for Instructional Television which has produced **Common Cents** and **Two Cents' Worth** for children at the primary level. For children at the intermediate level, there is a series called **Trade-Offs**. **Trade-Offs** will be on the air in the fall of 1978.

The 15-program series entitled **Survival Economics** is now in its third year on the Nebraska network. This program is intended primarily for senior high school students. A teacher's guide is available for each of the series.

A committee was asked to identify those economic concepts which would be appropriate for students in junior high. A concept paper for students at the junior high school level was developed to provide articulation for these grades in Nebraska schools. This publication identifies concepts only. Junior high social studies teachers will need additional help if economics education is to be meaningful for this age group.

Very few textbooks have been published in economics at the junior high school level. There is also no specific television series for this age group. Therefore, junior high school teachers have been asked to prepare instructional units which teach to most of the economics concepts set forth in this publication. These instructional units should be ready for Nebraska's schools during the fall of 1978.

Every junior high school or middle school will be encouraged to teach a course in economics. Some principals and teachers will prefer to offer one or more of the units in existing social studies classes. Additional units can be offered from time to time as teachers and students study economics together. The Nebraska Department of Education will continue to explore the possibility of supportive television programming for the junior high.

This concept paper has been developed with the social studies teacher in mind, but it may also be of interest to junior high business education teachers. The responsibility for teaching economics should be assigned to the teacher with the academic background and interest in economics.

The question may arise: what will have to be taken out of the present junior high school curriculum in the social studies if a place is to be made for economics? From our point of view, the junior high school principal will have to decide which courses most nearly meet the spirit and intent of the school's announced goal statement and the objectives which have been developed from it. If an accommodation for an entire semester cannot be made for an economics course, then the shorter instructional units should be introduced in existing course work where they are most appropriate.

The Nebraska Department of Education sought and received input from junior high principals, social studies teachers, and members of the business community for "Economic Concepts for Nebraska's Junior High School Students." Educators are urged to examine this material very carefully and to determine where it can best be used. We hope you will find these materials helpful as you continue to provide a quality education for our young people.

Anne Campbell
Commissioner of Education

PREFACE

This document is entitled **Economic Concepts for Nebraska's Junior High School Students**. It is the first part of a two-fold effort to provide some direction for junior high schools which want to introduce economics into their curriculum on an exploratory basis. The second part of this project is the preparation and distribution of instructional units on most of the concepts discussed in this document.

The Nebraska Department of Education appreciates the fine cooperation given to it by the many teachers and school administrators who have read this document in its pre-published form and have communicated their reactions to me. We would also like to thank the many workshop participants as well as the many business and professional people who have been generous in giving me their reactions to the project and their support for it.

The Nebraska Department of Education is also grateful to the Nebraska Economics Committee which provided us with information, guidance, and a sense of direction as we planned this publication.

We also want to thank Dwain Myers for helping us to identify the major economic concepts that should be introduced at the junior high school level and for writing this document. Donald R. Connell from the University of Nebraska at Omaha is also due a special thanks for preparing the list of teacher resource materials. We are also grateful to Mr. Robert Harris, who served on the economics committee and who has an enduring interest in economics, for preparing the statement "Why Study Economics?"

Two people to whom I owe a special debt of thanks and gratitude are Dr. LeRoy Ortgiesen, Administrator of School Management and Instructional Services, and Mr. Royal Henline, Administrator of Curriculum Services. Without Dr. Ortgiesen's strong and continued support, it would have been impossible to complete this project. Mr. Henline's encouragement, support, and legendary tact have made this work a most enjoyable task.

Special thanks are due to Carol Wipf for typing several drafts of the manuscript, and to Nancy Wipf for typesetting the final manuscript.

We at the Nebraska Department of Education are confident that this document is durable and that it will provide a framework for junior high school economics in Nebraska for many years.

Paul G. Johnson, Consultant
History and Social Sciences

WHY STUDY ECONOMICS?

It is difficult to find a course of study that will have more real impact on the future of students' lives than economics. The more students comprehend about the economic rules of our society as well as other societies, the better able they will be to achieve and enjoy the quality of life which our society offers.

Whether we want to or not, we all participate in economics at three levels: personally, professionally, and politically. The wisdom and judgment with which we participate affects not only our own lives, but also the lives of everyone else in our society as well. This impact on others puts economics into an important educational category. Improved understanding not only helps the student directly, but it also has a significant and positive impact on all segments of our society.

By studying economics, the student learns the personal role of economic rules in daily life. Some of the issues that face us constantly are as follows: why people are paid for work; how to plan for inflation; why some investments return more than others; how the function of collective bargaining operates; as well as many others. More important to society, however, the student learns that each of us must produce more than we consume if we want our civilization to make progress.

In studying economics, the student sees the importance of personal saving and investing of money as the stimulus that builds new houses, finances new research, and creates new jobs.

The student should also learn that his personal economic habits will have a significant impact on whether we stagnate, regress, or progress as a society.

The student's future professional performance is also enhanced by economic education. Clarification is given to issues such as: why some jobs pay more than others; the role of competition; what profit means; the function of

vii

government regulation; and more. To the benefit of society, the student learns the economic importance of personal productivity. Students also discover that personal income demands which are not tied to increased productivity simply cause increased inflation.

By studying economics, the student can become a knowledgeable participant in political economics. The student learns what a school bond election means; the importance of opportunity cost in considering the construction of a new city cultural center; the impact of political decisions in inflation; and much more. It is in this realm of citizenship that society benefits the most. A better understanding of economics means more knowledgeable participation at the ballot box.

No matter where we are in the world, we function under some economic system. Here in Nebraska, we operate with the system that has been the most productive in the world for both quantity and quality of life. Yet, over the last thirty years, we have made substantial ballot box decisions that have changed our economic system markedly.

Some people say the changes are going to "kill the goose that is laying the golden eggs." Others say the changes are "correcting old inequities and advancing our society."

The sad point is that very few people casting ballots have any economic understanding on which to base their vote. Trying to change a system without first understanding the system is at best a very foolish approach.

The greatest reason to promote economic education may be to create a literate voting population. How people vote affects all of us. The fact that most people vote with no economic knowledge or understanding is inexcusable.

This carefully prepared concept paper will be an excellent tool to help you to expand your efforts in economic education. This work is wholeheartedly supported and endorsed by Nebraska industry.

ACKNOWLEDGMENTS

The Nebraska Department of Education would like to express grateful appreciation to the Joint Council on Economic Education for permission to make adaptations of some of the material in **A Framework for Teaching Economics: Basic Concepts**, Part I of the Master Curriculum Guide in Economics for the Nation's Schools (Copyright JCEE 1977, All Rights Reserved).

We also express our appreciation to S. Stowell Symmes, the Director of Curriculum for the Joint Council on Economic Education for reviewing this manuscript and making detailed comments.

Appreciation is also expressed to the many individuals who gave of their time and knowledge to help prepare this publication. Many teachers participated in workshops where this material was discussed. Other teachers and administrators, as well as business people, read and reacted to the paper. Below is a list of those individuals who should be singled out for special thanks.

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INTRODUCTION

The concept paper which follows is an effort to communicate and to clarify **fourteen** basic economic concepts that appear to be the ones that should receive emphasis in junior high school social studies classes in Nebraska. The Joint Council on Economic Education has done extensive work in the area of defining the discipline of economics. Recently, the Joint Council published a major paper, part of which was devoted to the identification of the basic economic concepts that should be a part of economic education in American schools. The authors of the report suggest twenty-four basic concepts that should be included in a K-12 social studies program. These basic concepts can be used to help teach students economic concepts, decision-making skills, and responsible citizenship. In this junior high school economics concept paper, fourteen of the concepts identified by the Joint Council have been identified and briefly described. These are the concepts which are the most appropriate for the junior high school student to study.

The economic concepts in this paper are listed and explained in a sequence from the simplest to the most complex. Concepts one through ten are most appropriate for introduction at the junior high school level. They are also the most basic concepts. Concepts eleven through fourteen are difficult concepts and are probably best used with advanced junior high students or with students who show a special interest in economics.

These concepts can be used as a semester course or they may be split into four modules for shorter lengths of time. It is suggested that you use them as follows:

- Module 1 — Concepts 1-4
- Module 2 — Concepts 5-7
- Module 3 — Concepts 8 and 9
- Module 4 — Concepts 10-14

Since the concepts are built upon each other, they should be taught in the order in which they are presented. They may be used over the entire two or three year junior high social studies program or they may be used in a self-contained one-semester course.

A list of resource materials has been placed at the end of this publication for your use in planning your curriculum activities in economics.



Concept One: Economic Wants

Economic Wants are wants that all people have for materials, goods, and services. These wants cover a very wide range of things from the very basic wants of food, shelter, and clothing to wants that perhaps are not so basic such as a CB radio, an electric can opener, or cosmetic surgery. The very basic **wants** are desires for goods and services that all people have. Many of these wants are individual or personal in nature. The desire for a new cosmetic is an example of an individual or personal want. Remember that a personal want is not necessarily a basic need.

Some wants are for goods and services that are collective in nature. Collective wants are for goods or services that society decides it is better or more efficient to provide through government agencies. For example, the government agencies of defense, education, and transportation provide services that satisfy some of our collective wants. Almost one-third of the resources and one-fourth of the work force in the American economy are devoted to satisfying these collective wants.

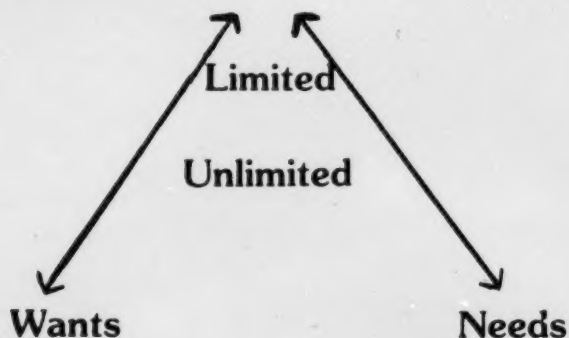
Regardless of whether they are individual or collective wants, these **wants** are basically **unlimited** in nature. As individuals, all of us would probably like a new car, a larger home, a new set of golf clubs, or a new suit. Most of us would also like to do more traveling, to send our children to college, to have the orthodontist correct our children's teeth, and to have our children take music lessons. Obviously, every American cannot have each of these personal economic wants satisfied.

Most of us also have a problem with our collective wants. We cannot have all of our collective wants satisfied. Many Americans would like to have such things as a better defense system, a cleaner environment, good highways, government subsidized rapid transit, improved parks and recreational facilities, and better police protection. Other Americans would like to have such things as a National Health Insurance program, government assisted day care centers, improved benefits or opportunities for disadvantaged Americans, and quality education for all

Americans at all age levels. As is true of our individual wants, we know we cannot satisfy all of the **collective wants** of the citizens of the United States. You can see then that our **economic wants**, both individual and collective, are **unlimited**.

The economic concept of unlimited wants or needs is an important one for several reasons. First, it needs to be made clear that the issues which are dealt with in economics are closely related to the material aspects of our lives. Secondly, this concept, **unlimited wants**, coupled with the concept of **Productive Resources**, leads to the concepts of **Scarcity** and **Opportunity Cost**. These concepts define the central economic problem faced by all individuals and all societies.

PRODUCTIVE RESOURCES





Concept Two: Productive Resources

In order for our economic **wants** to be satisfied, goods and services must first be produced. The economist identifies **three basic factors** (productive resources) that must be present in order for production to occur. They are the following **Productive Resources**:

1. **Natural Resources** - Natural resources are the basic building blocks of production. All societies must have natural resources in some quantity in order to produce a good or service. Nebraskans are well aware of some of the unique natural resources that exist in our state: fertile farm land, good supplies of water, and the grasslands of the Sandhills. Some natural resources such as water, forests, and land fertility are renewable. Others such as oil and coal are used up in the process of production. They are, therefore, lost to us forever.

2. **Capital Goods** - Capital goods are those things which are used to produce other goods and services. They include money, machines, tools, and factories. No society can maintain its present standard of living without putting some of its resources into capital goods. The accumulation of capital goods is an absolute necessity for all societies. However, all societies do not use the same techniques to accumulate capital goods. For example, the market economy of the United States uses retained earnings (profit) as a major source of capital accumulation. The Soviet Union uses government planning and allocation of resources to build its store of capital goods. The important point is that both societies accumulate money capital. In some of the less well-developed nations economically, little money capital is accumulated and held for future economic expansion. Most of their resources are used to produce consumer goods.

3. **Human Resources** - Human resources are the skills, talents, and abilities of the people of any society. The number of people available for the labor force will also have a dramatic impact on a society's economic development. Also involved in the factor of human resources is the quality and motivation of the work force. It is up to the people to combine the proper blend of natural resources, capital

goods, and human resources to produce goods and services efficiently.

It is important for all of us to be aware that these three types of **Productive Resources** are necessary for all production. The quantity and quality of these resources determine the economic standard of living for any society. The concept of **Productive Resources** is the second link in the chain of **four concepts** that comprise the basic economic problem. People should understand that while these three types of **productive resources** are always necessary for production, they are also limited in nature at any one given time. This is a crucial point for people to understand.

To illustrate at this particular time in our history that natural resources are limited is not a difficult task. At one time or another, almost any magazine or newspaper that you read will deal with some kind of natural resource that is in limited supply. At the present time, almost everyone is acutely aware that our energy supply, which comes directly from natural resources, is limited. In fact, according to economists, any resource that has a price is limited in supply.

It is perhaps a bit more difficult to illustrate the limited nature of capital and human resources; nonetheless, they are limited. Consider the shortage of doctors in the United States, especially in the rural areas of states like Nebraska. Are there enough mechanics, plumbers, and electricians in your community? Think about the need for capital goods necessary to produce the energy that the nation needs now. Do we have enough? Also, think about the enormous amount of capital goods that will be involved in the development of alternative sources of energy for the future. Clearly, the amount of natural resources, human resources, and capital goods available for production at any given time is indeed limited.



By combining the basic ideas of **Economic Wants** and **Productive Resources**, we can see the relationship between them. The relationship between these two concepts poses a basic problem for any society. When all of the individual and collective wants of the society are combined, they exceed the ability of the society to produce the goods and services necessary to satisfy them. Economists define this combination of **unlimited wants** and **limited resources** as **Scarcity**.

Once the concept of scarcity becomes operative, it is obvious that all **Economic Wants** cannot be satisfied. Therefore, **Choices** must be made. Sometimes these choices are made in a very structured fashion as in a centrally-planned economy. Sometimes these choices are made in the mixed market economy as in the United States. The problem of making choices compels the society to allocate or to divide its scarce resources among the production of various goods and services. This pattern of allocation is called **an economic system**.

Every economic system is faced with **three basic questions** that it must deal with:

1. **What and How Much?** — Somehow each society must decide whether it is going to use the scarce resources for capital good such as schools, buildings, factories, or for consumer goods such as automobiles, television sets, tape decks, or other consumer goods. In the mixed market economy of the United States, this question is generally answered in two ways. For about 70 percent of our resources, this decision is made through the use of the concepts of **supply** and **demand** (to be developed later). About 30 percent of our resources are allocated through "ballot decisions" which are made by our elected representatives at various levels of government.

2. **How?** — How will goods and services be produced? Will they be produced by the government or by private enterprise? Will the economic system emphasize technology and mass production or will it emphasize the use of human resources? How will **Productive Resources**

be shifted from one use to another? How will the economic system generate the capital necessary to sustain the present standard of living or to provide for economic growth? All of these questions must be answered by every economic system as it organizes its **Productive Resources**.

3. **For Whom?** — Put very simply, this question makes us realize that every system must decide who gets the goods and services that are produced. Since there are not enough goods for everyone, the following three questions become very important: who will have all of their wants satisfied; who will have their wants partially satisfied; and who will have very few of their wants satisfied? In market oriented economies like that of the United States, the question of who gets what is answered through the income that the person has available to spend. For example, the family with a large annual income will be able to obtain more gallons of expensive gasoline than the family with a poverty level income.

By using such concepts as **Scarcity** and **Choice** in economic education, we are able to explain the reality of "real world" economics. Common sense ideas tell us that people must be prudent consumers. Obviously, everyone cannot have everything they want. Even the most affluent families have some economic wants that they are unable to satisfy. Like everyone else, they also must make choices between alternative uses of their resources.

Although the United States is a very affluent nation, it does not even have the resources necessary to satisfy all of the **Economic Wants** of all of its citizens. That is a reality which all citizens must face at one time or another. It is important that students understand the facts enumerated above as well as that the problem of scarcity requires a system — an economic system — to resolve the conflict of unlimited wants and limited resources.



Concept Four: Opportunity Cost and Trade-Offs

The concept of **Opportunity Cost** is the last link in the chain of concepts dealing with the basic economic problems. **Opportunity Cost** can be defined as that which is given up when decisions are made to use a resource in a particular way. For example, a nation may decide that it is more important to produce military hardware than to build automobiles. Giving up the possibility of owning an automobile is the opportunity cost of producing additional military hardware.

The following illustration should help you to review the economic concepts that have been introduced thus far in this concept paper:

Unlimited Wants

- Collective
- Individual

Limited Resources

- Natural Resources
- Capital Goods
- Human Resources

Scarcity and Choices

- Need for Economic System
- What and How Much?
- How?
- For Whom?

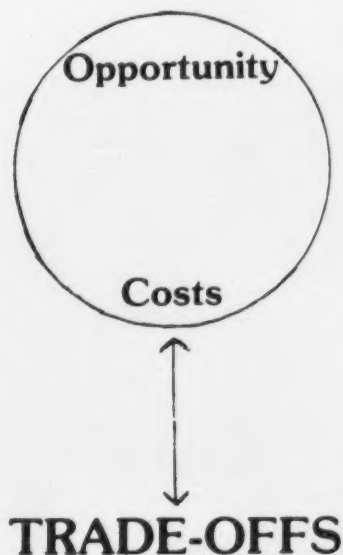
Opportunity Cost

Every economic decision carries with it **Opportunity Costs** — that which has been given up in this particular use of resources.

Obviously, steel that is used to build an automobile cannot be used to build a factory, a train, or a truck. Wood used for the production of paper cannot be used for the construction of homes. Aluminum used to make beverage containers cannot be used to build an airplane. Oil used for lubricating automobile engines is not available for producing plastics or chemicals. Water used on lawns or for industrial purposes is not available for irrigation.

Put another way, the **Opportunity Cost** of attending a University of Nebraska football game might be a stereo tape recording. The **Opportunity Cost** of purchasing a home might be an annual summer vacation. In other words, you will have to give up something in order to get something that you want badly. Thus, **choice** is involved in every economic decision. You must always make a **Trade-Off**. You may have two things you want badly. If you can have only one, you make a choice. Thus, you trade one off against the other one.

The concept of **Opportunity Cost** is a very practical concept since its application goes much further than personal finance. It can also be used to analyze the benefits and costs of solutions to a variety of social and economic problems. Some of these problems and concerns are pollution control; adequate health care for all Americans; personal, industrial, or agricultural use of water; and many others. It is vital that Americans think carefully about the costs of economic decisions, whether they be personal decisions or decisions that apply to the entire society.





Concept Five: Economic Incentives

In a mixed market economy such as ours in the United States, the greatest **economic incentive** behind economic behavior is **individual self-interest**. Whether they are consumers seeking to maximize the satisfaction of their **economic wants** with limited incomes, producers trying to maximize their profits, or workers trying to earn the most possible income, all groups are motivated basically by their own self-interest. Adam Smith, commonly called the father of capitalism, wrote in the 1770's that a system which is governed by the incentive of self-interest will automatically lead to the greatest good for the greatest number in a society. According to his economic philosophy, if all people work for their own benefit, an efficient economic system will evolve. In the long run, according to Smith, this system will bring the greatest benefit to all members of the society. Obviously, Adam Smith's economic views were based on value judgments. Nevertheless, it appears safe to say even today that a majority of Americans still share Adam Smith's views.

A major factor in the concept of **individual self-interest** is the profit motive. Profit plays a very vital and often misunderstood role in a market economy. Profit (or loss) is a signal to producers. If profits are high in a given industry, it means that there is strong consumer demand for that particular product. High profits encourage other producers to enter the field and take advantage of this consumer demand. A perfect example of this idea is the market for CB radios. When CB's first became popular items to purchase, there were only a few major manufacturers. They were making great profits. Still, they were unable to keep up with the demand. Since that time, numerous other competitors have entered the CB market. Consumer demands have been met and profits for all producers have leveled off. This is an example of **Economic Incentives** at work in the market place.

The type of competition mentioned in the CB market is a crucial requirement for an economy that operates on self-interest. If business firms do not have competition, there is nothing to prevent them from exploiting the consumer. Adam Smith believed that the "invisible hand" of

competition forces a system which relies on self-interest and the profit motive to be fair to all or to at least most members of society. For this reason, the government of the United States is interested in maintaining as much competition as possible in American business. In those areas such as utilities and transportation where there is little competition, rates are set by some unit of government.

Those concepts which relate to **Economic Incentives** are very important to young people. Most students will agree that the philosophy of self-interest is basic to a market economy. However, many young people have misconceptions about the role of profit. Both students and the public in general suspect that the rates of profit are much higher than they actually are. They do not understand the important role that profit plays as a signal to producers. That does not mean, however, that the school should be an advocate for business. However, the school should strive to help students to obtain a better understanding of the **Economic Incentives** which are basic to our economic system.

It is a basic responsibility of Economic Education to help students to gain an accurate understanding of the economy as it now exists. Then, students can make up their own minds about Adam Smith's idea that a system that relies on self-interest leads to the greatest good for the greatest number.

ECONOMIC INCENTIVES

Self-Interest

Profit

Wants



Concept Six: Specialization, Comparative Advantage, and the Division of Labor

11

Modern industrial economies are based on the concept of **Specialization**. Basically, **Specialization** occurs when an individual, region, or country produces a narrower range of goods and services than they need to live on. As an illustration, Nebraska tends to specialize in producing agricultural products while Detroit tends to specialize in manufacturing automobiles. Both areas are better off as a result of this **Specialization**.

Even within the industry of agriculture, we find **Specialization**. Few farmers produce their own eggs and milk. They find it more economical to use their time to specialize in what they do best, perhaps growing feed grains, feeding hogs, or feeding cattle. Almost everyone specializes in what he or she does best. Our working time is spent on endeavors for which we receive income. Then we use our income to buy the goods and services produced by others who specialize in making things which we cannot make. This leads to a **Division of Labor**, in which productive tasks are then divided among workers in order to take advantage of worker specialization.

A companion concept of **Specialization** and **Division of Labor** is the concept of **Comparative Advantage**. This idea merely takes **Specialization** a bit further. For example, do you recall the comparison given above in which a comparison was made between Nebraska agriculture and automobile manufacturing in Detroit? If so, you realize that Nebraska is better off because of this specialization. It would be inefficient in the production of automobiles because of an insufficient labor force and a lack of access to materials such as steel. The Detroit area would be relatively inefficient in large scale agricultural production because of the climate and the lack of available land. This concept is called **Comparative Advantage**. In other words, in agricultural production Nebraska enjoys a **Comparative Advantage** over Detroit. On the other hand, Detroit enjoys a **Comparative Advantage** over Nebraska in manufacturing cars.

If countries specialize in what they can produce most efficiently (or at a **Comparative Advantage**) and trade

those products with other nations in order to buy needed goods, they will have a higher standard of living than if they were self-sufficient. Two good examples are the United States which is an efficient producer of agricultural products and Japan which is an efficient producer of certain electronic products such as portable radios. Both nations are more prosperous economically when each country specializes in producing those things in which it has a comparative advantage, and trades for the other things which it needs.

Specialization, Division of Labor, and Comparative Advantage are important concepts because they show how and why the United States has moved in 200 years from a nation of self-sufficient, self-employed farmers to basically a nation of employees. **Specialization** and the accompanying **Division of Labor** have led to a higher standard of living for each of us. Knowing and understanding these two concepts can help students to appreciate the complexity of the economic world in which they are expected to function. Knowledge of **Comparative Advantage** can help the student to understand the reasons for trading with other nations, which is an ever-increasing factor in the economic lives of all Americans.

- ***Specialization***

- Agriculture
 - Car Manufacturing
 - Electronics

- ***Comparative Advantage***

- Japan
 - United States

- ***Division of Labor***

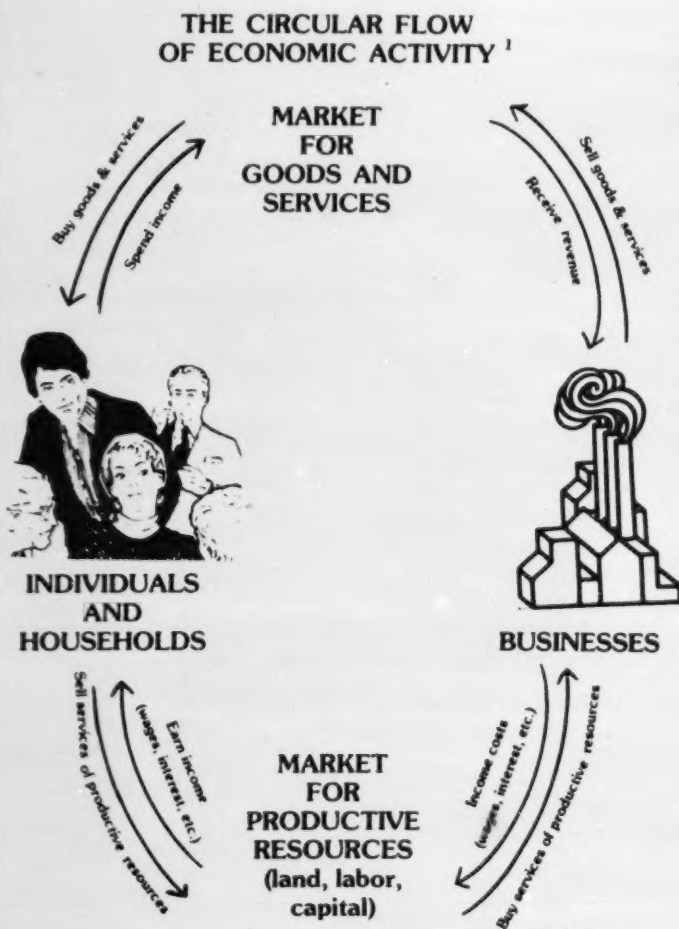
- Assembly Line

12



Concept Seven: Interdependence

In a specialized economy, the economic functions of people become highly interdependent. The following diagram illustrates this **Interdependence** in the private sector of our economy.

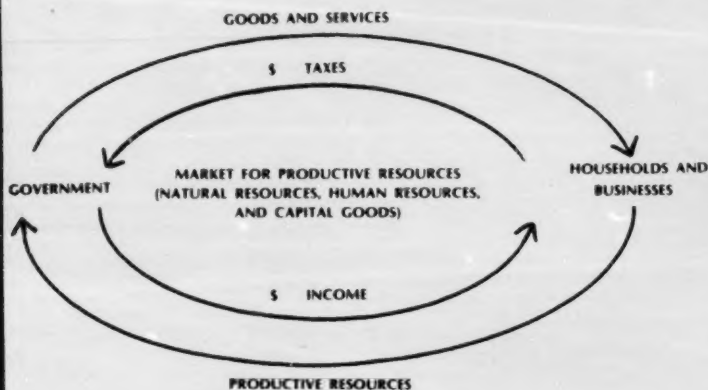


¹A *Framework for Teaching Economics: Basic Concepts*, Part I of the Master Curriculum Guide in Economics for the Nation's Schools (Copyright JCEE 1977, All Rights Reserved).

This model, which is called the circular flow model, shows how individuals and households make an income while working for businesses. In return, in the market for goods and services, the households become consumers, buying the goods and services that business has produced.

There is a continual flow between the business and household sectors of our economy. If, for some reason, that flow is disrupted, the economy will experience, at the least, a temporary problem. For example, if the individuals and households reduce their purchase of goods and services, there will be less need for **Productive Resources** (land, labor, and capital) on the part of the businesses. In turn, households as a group will have less income to spend, and the demand for goods and services will be further reduced. The situation we have just described would mean reduced business production, reduced consumer spending, and high unemployment. It would probably be called a recession. The process also works in reverse. As the consumer spends more of his income, businesses will need to use more **Productive Resources**. This will mean a larger income for the consumer. This situation would be called a period of economic expansion or prosperity.

Another circular flow of economic activity that should be mentioned to illustrate the **Interdependence** of the economy of the United States is the relationship or flow of economic activity between government and the households and businesses of the nation.





Households and businesses request goods and services from various levels of government. In return, they pay for these goods and services with their taxes. To provide the collective goods and services, the government purchases **Productive Resources**. In return, more income is provided for the households and businesses.

These models that illustrate the **Interdependence** of all facets of the market economy can give students a necessary overview of economic activity. This overview explains how an event that influences one segment of the economy can have an impact on all segments of the economy.

For example, many students in cities in Nebraska think that agriculture does not have any impact on them. Let us assume that a young man is a construction worker in Grand Island. Assume that farm income in the state is down because of drouth and low commodity prices. Since much of the economic activity in Grand Island comes from the surrounding farm areas, a decline in economic activities in agriculture will cause a decline in retail sales in Grand Island. This slow down in economic activity may mean that workers will be laid off in businesses that produce products and services used in agriculture. All of these factors cause a lower level of economic activity. The result will be that businesses in the Grand Island area will not be likely to undertake new construction projects to expand their facilities. Also, there will probably be a slow down in residential construction. Due to this chain of events and the interdependent nature of all economic activity, our young construction worker who thought that his life had nothing to do with agriculture is unable to find employment.

- 1. How may low grain prices affect the cattle industry?**
- 2. How will merchandising sales be affected in a small farming community in which the production costs of grain have risen higher than the sale price?**
- 3. What effect will a drop in retail sales have on the collection of sales taxes?**



Concept Eight: Markets, Supply, and Demand

The **Market** is the primary institution used in the United States to decide what is produced and who will receive it. It automatically tallies up the wants of the consumer (**Demand**) and the ability of the producer (**Supply**). The market works out a level of production and a price for the product.

Supply indicates the amount that producers will be willing to produce at various different prices at some specified time. The table below illustrates the concept of **Supply**.

Price	Quantity Producers Will Supply
\$2	1 Million
3	2 Million
4	3 Million
5	4 Million
6	5 Million
7	6 Million
8	8 Million

The key generalizations that can be made about **Supply** relate to price. At high prices, producers will find it more profitable to produce greater and greater quantities. At low prices, producers will produce smaller quantities. Some producers may halt production and seek a new product and a new market.

Demand indicates the amount that all consumers will purchase at given prices for a given period of time. This table illustrates the concept of **Demand**.

Price	Quantity Demand
\$2	10 Million
3	8 Million
4	6 Million
5	4 Million
6	3 Million
7	2 Million
8	1 Million

The key generalizations that can be made about **Demand** relate to price. At lower prices, consumers will demand more and more of a good or service. At higher prices, consumers will demand less and less of a good or service. If the price becomes too high, most consumers may cease to make purchases or begin to search for alternatives.

By combining the amount that consumers will demand and the amount that producers will supply, we come up with the **Market Price** of our commodity and the amount that will be produced.

Price	Quantity Supplied	Quantity Demanded
\$2	1 Million	10 Million
3	2 Million	8 Million
4	3 Million	6 Million
5	4 Million	4 Million
6	5 Million	3 Million
7	6 Million	2 Million
8	8 Million	1 Million

In our example, the forces of **Supply** and **Demand** will automatically settle on a market price of \$5.00 and production levels of 4 million. Notice that if producers are selling at \$7.00, the supply will exceed demand and automatically move toward the market price. Conversely, if they are selling at \$3.00, the demand will exceed supply, and prices will rise toward the market price.

It hardly seems necessary to present a rationale for including the study of **Supply** and **Demand** in basic economic concepts. Usually, when adults are asked about economic concepts, the concepts of **Supply** and **Demand** are those most often mentioned. The applications of **Supply** and **Demand** and **Price Mechanism** should give students some insights into a countless number of situations and problems that they will encounter in their lives. A more detailed rationale can be found in the rationale for the companion concept of the **Price Mechanism**.



Concept Nine: The Price Mechanism

The economic concept of **Price Mechanism** refers to market prices which are the primary ways of distributing the scarce resources among the unlimited wants of the American people. No one tells producers what to produce. However, consumer demand is usually a good indication about what will sell. Producers will then respond to that demand by producing more of a good or service.

Prices act as signals to everyone in the economy. They help the producer, the householder, and the worker to decide which economic decisions are best. Of course, each of these major sectors of our economy works toward satisfying its own economic self-interest. This approach to allocating goods and services is very flexible. It is also extremely responsive to the wants of the consumer.

A companion role of prices is to distribute scarce resources very carefully. For example, the price of products in short supply will rise. Consequently, some consumers will be priced out of the market. This method of distribution for some goods and services such as food, shelter, and health care raises some important moral issues. Students should be given the opportunity to discuss the moral implications of distributing those goods and services in this way.

Perhaps the best way to illustrate the importance of the concepts of **Markets, Supply, Demand, and Prices** would be to take a look at the problem of gasoline. One of our basic problems is that we are consuming too much imported oil. This is causing a serious outflow of money from the United States. In addition, we are using scarce and non-renewable petroleum resources at a rapid pace.

Through public relations campaigns, the oil companies have tried to explain the energy problem to the American public. The oil companies feel that they need higher prices for gasoline. This increased income would be used to provide capital and the incentive to expand the supply of oil and to develop alternate energy sources. That line of reasoning is basically consistent with the concepts of supply and demand. At higher prices, producers will produce

more. The concept of supply assumes that the producers are competitive with each other. In this case, the oil companies may or may not be competitive with each other. The average consumer has no way of determining this factor.

On the other hand, the concept of **Demand** implies that at higher prices people demand less. If this concept operates as expected, the objective of slowing the growth of the consumption of gasoline should be achieved. One of the problems in dealing with gasoline prices is that no one is absolutely sure to what degree demand will respond to increases in price. The concept of demand has with it a degree of elasticity. How responsive the changes in demand will be to the changes in price is not easy to predict.

The **Price Mechanism** plays an important role in the issue of gasoline prices. By using the **Price Mechanism** (higher prices) to cut consumption, the producers raise a serious question of equity or fairness. Presidents Richard M. Nixon, Gerald R. Ford, and Jimmy Carter have all proposed an excise tax on gasoline to raise the price to American consumers. Obviously, one of the purposes behind their recommendation is to raise the price in order to restrict consumption. It is important for young people to examine the problem carefully and to decide if they consider this reliance on the **Price Mechanism** to be a fair approach.

A second approach to the issue of gasoline prices is to de-control the industry and let **Supply, Demand, and Price Mechanism** run their course. This is the traditional approach that has been used to deal with economic problems. However, in this case the risk of not having a planned and coordinated effort to deal with the issue of gasoline prices may be too high.

Another approach to the problem of allocating gasoline equitably is to put a system of rationing into operation. This type of system can be fairer than relying on the **Price Mechanism**. It would, however, be a major departure from our traditional approach. Therefore, it would require a



substantial bureaucracy to administer the program. It might provide conditions under which black markets as well as other illegal activities would occur. Basically, what would happen is that prices would be held artificially low, and quantity demanded would exceed quantity supplied. In such a case, prices could no longer serve the function of allocating the supply.

There are many areas of the economy that can be used to illustrate the concept of the **Price Mechanism** and its relationship to current economic issues. Several that might be examined at this time are the various areas of energy, health care, and prices for farm products. A knowledge of **Supply, Demand, Markets, and Prices** can provide students with a conceptual background that will be helpful to them in examining economic problems in our society. A knowledge of economic concepts can also provide students with a set of analytical tools that they can use to help them make more rational decisions on a wide variety of public policy issues. It can also give them a much better understanding of the society in which they live.

PRICE MECHANISM MARKET PRICES

- **Markets**
- **Supply**
- **Demand**
- **Prices**

ECONOMIC ISSUES

- **Energy**
- **Health Care**
- **Farm Products**
- **Taxes**
- **Welfare**



The next family of concepts — **Aggregate Demand**, **Aggregate Supply**, **Money** and **Monetary Policy**, **Fiscal Policy**, and **Saving** and **Investment** — should be viewed together. They deal with the functioning of the economy as a whole in areas such as total output, employment, and inflation. Two of the concepts, **Monetary Policy** and **Fiscal Policy**, deal with the major ways that the United States has developed to deal with the fluctuations and instability in the economy.

Aggregate Supply or **Productive Capacity** refers to the total amount of goods and services an economy can produce when all of its **Productive Resources** (human resources, natural resources, and capital goods) are in use. This amount of total production is fixed at any given point. However, it can be increased by making more **Productive Resources** available or by improving efficiency in the use of existing resources. In short, this concept refers to the maximum possible production at any given time and how that level of production may be increased over time.

1. What effect can full employment have on productive capacity?
2. How does inflation affect productive capacity?

3. What role does the United States government play in increasing productivity?
4. How much can our society produce at a given time?
5. How can we increase our productive capacity?
6. How does new technology affect productive capacity?



The concept of **Aggregate Demand** refers to the total amount spent for goods and services by consumers. This list of consumers includes individuals, households, businesses, and governments. The balance between exports and imports is also a factor in **Aggregate Demand**. A point of clarification may be necessary with regard to imports and exports. The money received by American business firms for exports is money coming into the country. This incoming money is a positive addition to **Aggregate Demand**. On the other hand, money paid to other countries for imports is a negative force on **Aggregate Demand**. In the last several years, the United States has been importing substantially more than we export, thereby exerting a drag on the total demand.

When **Aggregate Demand** falls substantially below what the economy is capable of producing at full employment, workers will be laid off and production capacity will be idle. Consequently, an economic recession will occur. A recession is characterized by reduced levels of production and high unemployment. This situation causes serious social and economic disruption and hardship for those who have become unemployed. It is easy to think of unemployment merely as a number or statistic. However, students must be taught to discuss and recognize the human cost of unemployment both in financial and psychological terms.

When **Aggregate Demand** exceeds **Productive Capacity**, inflation occurs. Demand pull is the traditional type of inflation. It is characterized by too many dollars chasing too few goods. Under those economic circumstances, economic activity is characterized by very high levels of production and full employment. In fact, there are often jobs that cannot be filled. Economic planners try to keep **Aggregate Supply** and **Aggregate Demand** in some kind of rough balance. As a result, there are fewer social and economic disruptions in our society. That is the goal of **Fiscal** and **Monetary Policies** which will be discussed later.

It should be emphasized that not all inflation and unemployment are the result of imbalances in **Aggregate Supply** and **Aggregate Demand**. Some people will remain unemployed even in times of prosperity. These individuals may not have the skills necessary to fill the jobs available. Another reason for some people remaining unemployed is their location. They may live in chronically depressed areas where there is little employment potential. In recent years, the United States has been experiencing inflation even when **Aggregate Demand** is not too high. The cost of energy, actions of business and employee organizations in key industries, governmental and government regulations, and supply shortages in specific markets have all contributed to the kind of inflation that is not caused by **Aggregate Demand**. This type of inflation is called cost-push inflation and is becoming an increasingly serious problem in the United States.

The **Aggregate Supply** and **Aggregate Demand** concepts give students the theoretical background to understand the reasons behind instability in the economy. In an age when we are having increased difficulties in maintaining a stable economy, every American should understand the root causes of unemployment and inflation. It is impossible to fulfill the role of responsible citizenship in responding to public policy decisions in these areas without an understanding of these concepts.

- **Aggregate Supply** — The total amount of goods and services an economy can produce.
- **Aggregate Demand** — The total amount spent for goods and services by consumers.



This is a rather complex concept, especially **Monetary Policy**. Most students think that money is either currency or coin in the United States economy. Actually, currency and coins account for only about 20 to 25 percent of our money supply. The rest of our money supply simply exists as demand deposits (checking accounts). The banking system can expand the supply of money by making loans to businesses, individuals, or governments. In turn, these loans create additional demand deposits which expand that component of the money supply. In this manner, the banking system has a direct impact on **Aggregate Demand**.

The Federal Reserve System is responsible for controlling the activities of the banking system in ways that either expand or restrict **Aggregate Demand**. In general, the Federal Reserve System influences the cost of credit and the size of the money supply toward those ends.

The Federal Reserve System has three specific policies that it uses; these policies are referred to as **Monetary Policies**. They are as follows:

1. **Reserve Requirements** — The Federal Reserve System has the power to tell banks how much of their deposits they must retain as reserves. Generally, these required reserves are approximately 15 percent of the deposits of the bank. In a recession, the Federal Reserve System would follow a loose money policy which would lower the reserve requirement to enable banks to make more loans and thus increase **Aggregate Demand**.

In a period of demand-pull inflation, the Federal Reserve System might increase the reserve requirement. The result would be to reduce the amount of money that banks can lend. Total spending would thus be restricted.

2. **Rediscount Rate** — This policy refers to the rate of interest that member banks are charged when they borrow from the Federal Reserve System. Although the Federal Reserve System does not directly set interest rates for borrowers, it does influence interest rates and borrowing

through its policy. When the Federal Reserve System is following a loose money policy, it lowers the rediscount rate. As a result, bank interest rates also decline. Then, total spending in the economy is stimulated. Lower interest rates should be an inducement to business to borrow more money. Conversely, when total spending is too high, the Federal Reserve System raises the rediscount rate. This action raises interest rates and discourages borrowing.

3. Open Market Operations — This policy is generally considered to be the most effective and most commonly used **Monetary Policy**. It involves the purchase and sale of government securities (the national debt) between the Federal Reserve System and private institutions such as banks and insurance companies. In a period of low total spending, the Federal Reserve System will buy the securities from the institutions in the private sector. This money from the Federal Reserve System will end up in the banking system. It will give banks more money to make available to borrowers, thus expanding demand. In a period of excessive total spending, the process works in reverse. The Federal Reserve System will sell the securities to the private sector. Money will be pulled out of circulation. Total demand will be restricted.

Since inflation is caused by too much money chasing too few goods and services, the size of the money supply must be carefully determined by the Federal Reserve. This is a very complex task since individuals, businesses, and government are generally seeking additional money to satisfy their wants.

There is honest disagreement among economists concerning exactly what the **Monetary Policy** should be at a given time. Although these disagreements may occur, the general principles of **Monetary Policy** that have just been described are in constant use in efforts to keep the economy stable.



Concept Thirteen: Fiscal Policy

Fiscal Policy refers to the taxing and spending policies of the Federal Government. In periods of recession and high unemployment, the Federal Government will seek to create employment and to put more spending money into the economy. This is done by increasing government spending and by holding taxes at their current level. It could also be done by increasing government spending and cutting taxes. In either case, the government will run a deficit in order to pump more spending money into the economy to deal with the problem of inadequate **Aggregate Demand**.

When the economy is in a period of demand inflation, which is characterized by excessive **Aggregate Demand**, the government should raise taxes and/or cut spending. By taking this kind of action, the government will cause a budget surplus which will pull money out of circulation. This is an appropriate policy in a period of demand inflation. However, it would not be helpful in dealing with inflation of a cost-push nature.

While it is probably not appropriate to go into great detail about fiscal and monetary policies for junior high school students, we can still give them a general overview of the way we attempt to deal with the problems of **Aggregate Demand**. Certainly, the social studies program has the responsibility at some point to provide the student with activities that teach these concepts. These public policy issues involve every American. We are asked to pass judgment on the direction of these policies through the electoral process. If students are not exposed to these vitally important economic concepts, educational institutions are not meeting their responsibilities.

- ***Fiscal Policy*** — Taxing and spending policies of the Federal Government.
- ***Aggregate Demand*** — The total amount spent for goods and services by consumers.
- ***Aggregate Supply*** — The total amount of goods and services an economy can produce.



Concept Fourteen: Saving and Investment

Saving and **Investment** are important concepts because they are key factors in economic growth. Most Americans believe that we should continue to strive to increase our standard of living. This means that our economy must continue to grow. In fact, it must grow to some degree just to keep up with the population growth. All of the goods and services in the economy can be viewed as a giant pie. Without economic growth and with an increasing population, the size of the piece of pie for each of us would be smaller.

Basically, we have two choices as to what we will do with our income. We can spend it for consumption or we can save it for future use. It is vitally important for any economy that people save a certain amount of their income. The economy needs these savings so that it can produce goods and services in the future. When these savings are used to increase the productive capacity of the economy, investment has occurred. These savings may be used to train or to educate the human resources, to develop technology, to develop new factories, and to replace plants and equipment that have worn out.

The concepts of **saving** and **investment** are related closely to the **Market Mechanism**. High prices and high profits will cause both individuals and businesses to invest their savings. Investors must feel that there will be an adequate return on their **Investment**. When they are assured of an adequate return, they will be able to commit their resources to a particular enterprise. Some people feel that we are faced with a "capital crisis" in the United States today. Some people feel that it will be difficult to provide the capital that is necessary to sustain our standard of living. For example, it will take immense amounts of **Savings** and **Investments** to provide the research and development that is necessary to develop alternative sources of energy.

An understanding of these concepts is very important to Americans. We must recognize the necessity of **Saving** and **Investment**. We must also be willing to take the necessary steps to insure that there are adequate amounts of capital goods available. Failure to meet this challenge will ultimately lead to a declining standard of living.

1. Who are the investors?
2. What factors will cause individuals and businesses to invest their savings?
3. How are savings related to productive capacity?
4. How are the concepts of saving and investment related to the standard of living?



Resource Materials

prepared by Donald R. Connell

Listed below are materials which a teacher may find useful in preparation for teaching economic ideas and concepts. Some of the materials are free; others cost modest amounts. The user may pick and choose among this list to select materials which will best meet his or her needs.

1. **Part 1. A Framework for Teaching Economics: Basic Concepts, Part I of the Master Curriculum Guide in Economics for the Nation's Schools** (Copyright JCEE, 1977, All Rights Reserved). A concise statement of basic concepts and generalizations for teaching economics in the school. Using diagrams, it summarizes the structure and substance of economics as understood by and agreed to by the majority of economists and economic educators. By W. Lee Hansen, G. L. Bach, James D. Calderwood, and Phillip Saunders. 1977, 56 pages (No. 253, JCEE Checklist, Joint Council on Economic Education, 1212 Avenue of the Americas, New York, New York 10036); cost \$2.50.
2. **Economics in History and the Social Sciences.** A set of seven papers by noted authorities in social sciences, based on those delivered at a seminar for authors and publishers of social science textbooks held January, 1974. These papers make significant suggestions in attempts to integrate the social sciences. 1974, 91 pages (No. 206, JCEE Checklist); cost \$2.50.
3. **Economics in Social Studies Textbooks.** An Evaluation of Economics and the Teaching Strategies in Social Studies Textbooks. The final report of an evaluation of the treatment of economics in social studies textual materials. Book Two: Junior High School (Grades 7-9) by George C. Watson, Jr., Hossein Askara, P. E. Campbell, May E. Milliken, and Daniel Ounjian. 1973, 48 pages (No. 187, JCEE Checklist); cost \$1.00.

4. ***Educational Games and Simulations in Economics***, 2nd revised and expanded edition. Includes a listing of 130 games for use at the elementary and secondary levels; articles on constructing, selecting, and using simulation games; an annotated bibliography of articles and references related to the use of games; and names and addresses of published bibliographies, journals and newsletters, and distributors and publishers. By Darrell R. Lewis, Donald Wentworth, Rober Reinke, and William E. Becker, Jr. 1974, 134 pages (No. 205, JCEE Checklist); cost \$4.00.
5. ***Audiovisual Materials for Teaching Economics***. Report of the Montclair State College Audiovisual Evaluation Committee to the Joint Council. An annotated bibliography of selected audiovisual materials in economic education, K-12. Includes a discussion of the evaluation process used by the Committee, an overview of "The State of the Art" in the field of audiovisual materials production, and a listing of publishers and distributors. Excellent reference for teachers, media center directors, and librarians. Updates 1969 report. By Sidney J. Kronish, 1972, 56 pages (No. 181, JCEE Checklist); cost \$2.00.
6. ***Government and the Economy: A Resource Unit for Grades 7, 8, and 9***. A collection of suggested activities (initiatory, developmental, and culminating) from which teachers can select those activities best suited for their own classroom use. Many are based on entries in The Kazanjian Foundation Award Program for the Teaching of Economics. Also includes a listing of materials for pupil use and ideas for evaluating results. Edited by George C. Dawson, 1974, 26 pages (No. 204, JCEE Checklist); cost \$2.50.
7. ***Economic Education Experiences of Enterprising Teachers*** (Series). Prepared annually by the Joint Council and The International Paper Company Foundation to describe the entries submitted in the National Teacher Awards Program for Excellence in Teaching Economics. Back Issues (10-12 — Awards Program



Entries 1970-1974); cost \$2.00. Volume 14: 1976-77 Awards Program Entries, 128 pages (No. 250, JCEE Checklist); cost \$2.00.

8. **Junior High School Test of Economics (Grades 7-9).** Evaluative instrument consisting of 40 questions to measure learning of economic concepts at the junior high level. Classroom-tested with seventh, eighth, and ninth grades in 22 school districts. The manual includes a rationale for the question, technical normative data, suggestions for use of the test, the answer sheet, and scoring key, 1974. **Interpretive Manual and Rationale**, 38 pages (No. 200, JCEE Checklist); cost \$2.00; **Test Booklets** — Package of 25 (No. 201, JCEE Checklist); cost \$6.00.
9. **The Worldly Philosophers** — by Robert Heilbroner. This is a book about a few of the important economic thinkers including Adam Smith, Karl Marx, John Maynard Keynes, and others. It is excellent background for anyone interested in learning about and teaching economics. Paperback, Third Edition, A Clarion Book published by Simon and Schuster, Rockefeller Center, 630 Fifth Avenue, New York, New York 10020.
10. **Economics in the Curriculum: Developmental Economic Education Program.** This first part of the publication deals with economic ideas and concepts. The second part discusses the question of grade placement of economic concepts. By James D. Calderwood, John Lawrence, and John E. Maher. 141 pages. Robert E. Krieger Publishing Company, Huntington, New York, 1975.
11. **Introducing Economics.** The study of economics is really the study of people living and working together. This publication is basically an outline. Concepts are grouped and listed for easy reference and understanding. Examples are provided for each concept in short, complete paragraphs. 1974, 52 pages. Copies may be obtained free from the Public Services Department, Federal Reserve Bank of Boston.

12. (A) **Check Points** — A pamphlet on making out checks and using them correctly.
(B) **Counterfeit Points** — A pamphlet on identification and handling counterfeit currency.
(C) **Dollar Points** — A pamphlet briefly explaining the history of and types of currency in the United States.
(D) **Penny Points** — A pamphlet explaining the minting and history of the penny. All four publications listed above may be obtained from the Public Services Department, Federal Reserve Bank of Boston, Boston, Massachusetts.
13. **Thoughts on the American Business System.**
The articles contained in this publication appeared in **Think** during the period from August 1975 to September 1976. **Think** magazine is published by IBM for their employees in both the United States and abroad. Contains articles discussing contemporary economic problems as viewed by a few prominent economists. 48 pages. May be obtained from Editor, **Think Magazine**, 7-11 South Broadway, White Plains, New York 10601.
14. **Economics Up Close: A Common Sense Look at Current Issues.** Published several times each year. Deals with current economic problems. May be obtained free from Dr. William Gillies, Center for Economic Education, 210 CBA Building, University of Nebraska-Lincoln, Lincoln, Nebraska 68588.
15. **Your Money and the Federal Reserve System.** A short booklet describing the development, use, and forms of money in our economy. May be obtained free from the Federal Reserve Bank of Minneapolis, Minneapolis, Minnesota.
16. (A) The Price System
(B) Unemployment and Prosperity — Why?
(C) The Mystery of Economic Growth
(D) Gold!
(E) Automation



- (F) The New Poverty
- (G) The Balance of Payments
- (H) The National Debt
- (I) Inflation and or Unemployment
- (J) Truth in Lending

The publications listed above are small booklets dealing with various economic topics. They are well written, easily understood, and may be used by both teacher and student. They may be obtained free by writing to the Public Information Division, Federal Reserve Bank of Philadelphia, Philadelphia, Pennsylvania 19101.